

July 9, 2019

Doug Smith, City Manager

Subject: Investigation of Unpaid Invoices in the Department of Neighborhood Development

The attached report contains the results of our investigation within the Department of Neighborhood Development. Our area of focus was based on a complaint received through our Fraud, Waste, and Abuse Hotline regarding unpaid vendor invoices. Our report noted the Department of Neighborhood Development did not pay for merchandise received; unauthorized usage of the City Seal and Logo; unprofessional reproduction of the City Seal; no written policy in place to enhance and formalize a departmental process for personal uniform purchase and no City policies for the approval of the City's Seal and/or Logo usage. Therefore, to mitigate any risks to the City, we are making six recommendations based on our results.

We appreciate the courtesies and cooperation extended to us during our investigation. If you have any questions, please contact me at extension 4-4044

Respectfully submitted,



Tammie Dantzler  
City Auditor, MBA, CFE

cc: Honorable Mayor Alexander  
Honorable City Council Members  
Bernard Pishko, City Attorney  
Alan Bull, City Clerk  
James Rogers, Deputy City Manager  
Michelle Johnson, Director of Neighborhood Development  
Lori Crouch, Director of Communications

The Office of the City Auditor has completed an investigation in the Department of Neighborhood Development (Neighborhood Development). This report presents the results.

### **Legal and City Policy Requirements**

1. Per the Code of Virginia, §15.2-2511.2, the City Auditor is required to investigate all allegations of fraud, waste, and abuse.
2. In accordance with City Ordinance No. 44,000, (b) (2), *“The City Auditor is hereby requested to dedicate a telephone line, and a website, if cost-effective, through which employees and residents of the City of Norfolk may report anonymously an incidence of fraud, waste, or abuse committed by any City officer or employee, or within any City department or program.”*
3. Per the City Code, Sec. 16-59.(b)(1), Fraud is defined as *“The intentional deception perpetrated by an individual or individuals, or an organization or organizations, either internal or external to the city, that could result in a tangible or intangible benefit to themselves, others, or the city or could cause detriment to others or the city. Fraud includes a false representation of a matter of fact, whether by words or by conduct, by false or misleading statements, or by concealment of that which should have been disclosed, which deceives and is intended to deceive.”*
4. The City’s Administrative Policy, 8.3, related to employee corrective action guidelines and procedures defines employee behaviors that result in disciplinary actions. Specifically, *“Disciplinary action may be issued to an employee for any behavior or conduct which discredits the City or its employees or hinders the effective performance of the City’s governmental or proprietary functions...”*

### **Allegation**

We received a complaint that alleged a vendor did not receive payment for two department-placed and three employee-placed uniform orders.

### **Background of Allegation Subject**

An entrusted employee of Neighborhood Development served as a liaison to order and receive departmental uniform orders directly with a vendor. The liaison also placed personal orders for additional uniforms on behalf of Neighborhood Development employees and required the employees to pay for their orders up front in cash. In this instance, the liaison placed two departmental uniform orders and three personal orders for additional uniform items in May 2018. The liaison received the filled orders without paying the vendor. Subsequently, Neighborhood Development could not account for the items purchased nor determine whether employees who prepaid the liaison received their items because the liaison went on medical leave. Seeking advice on the matter, Neighborhood Development spoke with Human Resources who advised them against contacting the employee, due to her medical leave status, and suggested they speak with the Office of the City Auditor.

## **Findings**

1. **Outstanding Invoice-** The employee liaison was serving as the department's agent when the orders were placed and filled, therefore, the City became obligated to pay all the invoices. However, one invoice remained unpaid.
2. **Lack of accountability-** The employee liaison had sole control of purchases for personal items. At the onset of the investigation, there was no formal process to ensure accountability. During the investigation, Neighborhood Development provided guidance on documenting personal orders. We applaud the department's efforts for establishing a process, however, we noted the need for additional internal controls, such as dual controls to ensure accountability over personal orders.
3. **Unauthorized use of the City Logo and City Seal -** Neither Communications or the City Clerk approved the Neighborhood Development's uniform vendor to affix the City Logo or City Seal on the shirts ordered. Communications' current practice requires vendors to obtain permission before using the City Logo. The City Clerk, as the keeper of the seal, should also authorize the use to ensure authenticity. In addition, the vendor did not professionally reproduce the Seal. **See Appendix A**
4. **Lack of Written Policies and Procedures for using the City Logo -** We searched the City Code as well as the City policies and procedures and could not locate a written policy requiring Communications to approve a vendor to use the City Logo.
5. **Lack of Written Policies and Procedures for using the City Seal -** We reviewed the City Code and noted it does not require vendors to obtain approval from the City Clerk to use the City Seal. However, the Code does state the City Clerk shall be the keeper of the City Seal(s).
6. **The City Code is outdated –** Currently, the City Code has codified how the City Clerk is to use the City Seal to authenticate documents. Although, the code states, "*The city clerk shall be the keeper of the city seals.*"; however, it lacks language facilitating this role, such as requiring the City Clerk to approve a vendor before affixing a reproduction of the Seal onto a uniform or any other type of paraphernalia. Further, the code does not contain sanction(s) for unauthorized use or reflect current City practices.

## **Conclusion:**

Based on the findings, the Office of the City Auditor concludes the allegation was substantiated, therefore, we recommend:

- a) The Department of Neighborhood Development pay the invoice for \$95.92 (if it remains unpaid) to make the vendor whole for the merchandise ordered, to protect the reputational risk to the City.
- b) The Department of Neighborhood Development should develop the existing process for employees to place personal orders for additional uniforms into a written policy that includes dual controls for individual orders, such as two employees are responsible for the

receipt and recording of monies received, documenting employee uniform orders, safeguarding cash, and reconciling activities of the personal orders placed.

- c) City departments should seek the approval from Communications and/or the City Clerk for a vendor to use either the City Logo or City Seal for uniforms and paraphernalia. Also, reproductions should be prepared in a professional manner.
- d) Communications develop a written policy to require City departments to seek approval for a vendor to use the City Logo.
- e) The City Manager review decentralized purchasing processes to develop a written policy requiring City departments to seek authorization from the City Clerk for a vendor(s) to reproduce the City Seal, to mitigate misunderstanding about the authorization, appropriate use of, and authenticity of the reproduction.
- f) The City Manager coordinate with the City Attorney's Office, to update the City Code to ensure alignment with formal policies developed, address liability risks to the City, make the unauthorized use of the Seal a misdemeanor and/or a nuisance, so the City can abate or enjoin such use, and possibly trademark the seal.



## Official City Seal



Source: City Clerk's Office

## Reproduction of the City Seal<sup>1</sup>



Source: Department of Neighborhood Development

<sup>1</sup> We noted the following differences between the Official City Seal and the vendor's reproduction of the City Seal.

- The motto "Et terra et mare divitiae tuae" over the ship is missing
- The motto "Crescas" under the wheat is missing
- The wheat is unrecognizable